

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-01

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 8058

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 15644

E.O. 11652: GDS

TAGS: EFIN, EEC, IT

SUBJECT: CONVERSION OF EC CREDIT TO ITALY TO MEDIUM-TERM

PASS TREASURY AND FRB

1. SUMMARY. ON NOVEMBER 11, TREASURY DIRECTOR GENERAL PALUMBO GAVE OUTLINE OF FINANCIAL ARRANGEMENT FOR CONVERSION OF EC SHORT-TERM CREDIT INTO MEDIUM-TERM CREDIT AND OF ECONOMIC CONDITIONS TO BE ATTACHED TO LOAN. END SUMMARY.

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2. DIRECTOR GENRAL PALUMBO TOLD EMBOFF NOVEMBER 11

THAT AT EC MONETARY COMMITTEE MEETING NOVEMBER 6-7 REPORT TO EC MINISTERS OF FINANCE HAD BEEN COMPLETED SUPPORTING CONVERSION OF MARCH 1974 EC SHORT-TERM CREDIT OF \$1.9 BILLION INTO MEDIUM-TERM CREDIT. LOAN WOULD HAVE THREE-YEAR GRACE PERIOD WITH AMORTIZATION SCHEDULE BEGINNING THEREAFTER FOR ONE YEAR PROBABLY WITH QUARTERLY REPAYMENTS. INTEREST RATE REPORTEDLY WOULD BE 7-8 PERCENT, BUT NO FINAL DECISION HAS BEEN MADE AS YET. ALTHOUGH CREDIT WOULD FORMALLY BE DENOMINATED IN EC UNITS OF ACCOUNT, DECISION MUST STILL BE MADE AS TO WHETHER GUARANTEE WOULD BE IN UNITS OF ACCOUNT AGAINST DOLLARS OR IN UNITS OF ACCOUNT AGAINST CURRENCIES ACTUALLY BEING LENT BY EC PARTNERS IN PROPORTIONS EQUAL TO THEIR SHARE IN MEDIUM-TERM CREDIT. SPECIAL ARRANGEMENTS BEING MADE BY UK AND FRANCE IN ORDER TO PARTICIPATE. IN ORDER TO AVOID PARLIAMENTARY APPROVAL OF MEDIUM-TERM GOVERNMENTAL CREDIT AND TO AVOID DROP IN OFFICIAL RESERVES, UK WILL PARTICIPATE IN MEDIUM-TERM CREDIT THROUGH ROLL-OVER OF SHORT-TERM CREDITS FROM BANK OF ENGLAND. FRANCE WILL DO SIMILARLY FOR ONE-HALF OF ITS COMMITMENT. (LATTER FEATURE IS CONFIDENTIAL -- PLEASE PROTECT.)

3. PALUMBO SAID THAT EC CONDITIONS ATTACHED TO MEDIUM-TERM LOAN WILL BE IN THREE MAIN AREAS: (1) GLOBAL DOMESTIC CREDIT CEILING, (2) CEILING ON CREDIT TO TREASURY AND (3) MEDIUM-TERM FISCAL REFORMS. PALUMBO SAID THAT BECAUSE OF CHANGE IN OIL DEFICIT ESTIMATE MARCH 1974- MARCH 1975 GLOBAL DOMESTIC CREDIT CEILING UNDER IMF STANDBY WILL BE REVISED BACK TO APPROXIMATE ORIGINAL CEILING OF 22,400 BILLION LIRE IN ACCORDANCE WITH TERMS OF STANDBY. EC CREDIT CEILING FOR MARCH TO MARCH PERIOD BEGINNING 1975 WOULD BE RAISED TO 24,700 BILLION LIRE, OR INCREASE OF ABOUT 10 PERCENT IN NOMINAL TERMS. (GOI STILL HOPING TO KEEP OVERALL PRICE INCREASE IN 1975 TO ABOUT 16 PERCENT.) PALUMBO SAID THAT ORIGINAL 9,200 BILLION LIRE CEILING ON FINANCING OF CASH BUDGET DEFICIT FOR 1974 HAD ALREADY BEEN REVISED DOWNWARD TO 8,700 BILLION LIRE, IN ACCORDANCE WITH TERMS OF IMF STANDBY. GOI EXPECTED CONFIDENTIAL

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TO STAY WITHIN THAT LOWER LIMIT, WITH CASH DEFICIT TO BE FINANCED THIS YEAR NOW ESTIMATED AT ABOUT 8,400 BILLION LIRE. NEW CEILING ON CASH BUDGET DEFICIT WOULD BE DETERMINED FOR 1975 AT REDUCED LEVEL, BUT PALUMBO DID NOT GIVE A FIGURE. GOI HOPES TO LIMIT INCREASE IN GOVERNMENT CASH EXPENDITURES TO ABOUT 16 PERCENT IN 1975. COMMITMENT TO EC WOULD ALSO INCLUDE ELIMINATION OF NEGATIVE SAVINGS IN PUBLIC SECTOR OVER

FIVE-YEAR PERIOD, SO THAT AT END OF PERIOD PUBLIC
SECTOR WOULD AGAIN GENERATE SAVINGS TO FINANCE PUBLIC
INVESTMENT. GOI WOULD ALSO BE COMMITTED TO PRESENT
PROGRAM OF MEDIUM-TERM FISCAL REFORMS BY JUNE 30, 1975
AND TO PROGRESSIVELY REDUCE FINANCING OF CASH BUDGET
DEFICIT WITH MONETARY MEANS. VOLPE

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